



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Judicial Branch

*For the Two Fiscal Years Ended
June 30, 2020*

APRIL 2021

LEGISLATIVE AUDIT
DIVISION

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting and many staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by *Government Auditing Standards*. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2019, was issued March 30, 2020. The Single Audit Report for the two fiscal years ended June 30, 2021, will be issued by March 31, 2022.

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LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

April 2021

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Judicial Branch for the two fiscal years ended June 30, 2020. Included in this report are no recommendations.

We reviewed the reasonableness of the financial schedules and notes of the Judicial Branch and issued an unmodified opinion. An unmodified opinion means a reader can rely on the information presented and the underlying financial records. We also tested compliance with state laws and policies.

The branch's written response to the audit is on page C-1. We thank the Chief Justice, the Court Administrator, and branch staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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ELECTED AND APPOINTED OFFICIALS

			<u>Term Expires</u>
Supreme Court	Mike McGrath	Chief Justice	2025
	Elizabeth Baker	Justice	2027
	Ingrid Gustafson	Justice	2027
	Laurie McKinnon	Justice	2029
	James A. Rice, Jr.	Justice	2023
	Dirk Sandefur	Justice	2025
	James Jeremiah Shea	Justice	2029

Clerk of Supreme Court Ed Smith, through December 31, 2018

Bowen Greenwood, as of January 1, 2019

Appointed Officials Beth McLaughlin, Court Administrator
Sarah McClain, State Law Librarian

For additional information concerning the Judicial Branch, contact:

Beth McLaughlin, Court Administrator
Montana Supreme Court
P.O. Box 203002
Helena, MT 59620-3002
(406) 841-2957
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MONTANA LEGISLATIVE AUDIT DIVISION

Judicial Branch

FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2020

BACKGROUND

The judicial power of the state is vested in the Supreme Court; courts in the 22 judicial districts; Workers' Compensation Court; Water Court; courts of limited jurisdiction; and any other courts established by law.

Judicial Branch (branch) operations include the Supreme Court, Clerk of the Court, Water Court, district courts, State Law Library, and the computer technology support of all courts, including those of limited jurisdiction. Branch activities include district court expenses for judges, staff and youth probation officers; Supreme Court Justices; Court Administrator's Office; Clerk of the Supreme Court; Law Library; and Water Courts.

The branch is overseen by the Supreme Court and administered by the Court Administrator's Office. District courts' jurisdiction includes criminal, tort, contract, and property rights as well as domestic relations, mental health, estate, civil appeals, and other miscellaneous civil cases.

The water court's activities are limited to adjudication of existing water rights. The Law Library provides references services to the public.

The branch received legislative direction during the 2019 Legislative Session to create two new programs. Chapter 456, Laws of 2019 (HB 684), established a Pretrial Diversion Program within the Judicial Branch as a pilot project. The branch prepared a report of performance measurements related to this program that is available on the branch's website. HB 684 also provided a \$2 million transfer to the treatment court support account established by Chapter 413, Laws of 2019 (HB 654), intended to expand the capacity and quality of existing treatment courts and extend treatment courts to previously unserved areas of the state.

AUDITOR'S OPINION: UNMODIFIED

We found the branch's financial schedules and note disclosures presented fairly the activity of the branch in all material respects and issued an unmodified opinion. This means a reader can rely on the information presented and the underlying financial records.

For the full context of the branch's financial activity, see the financial schedules and notes beginning on page A-4.

RECOMMENDATIONS:

In this report, we issued the following recommendations:

To the branch: 0

To the legislature: 0

In this report, we determined the implementation status of recommendations in the prior audit:

Fully Implemented: 1

Partially Implemented: 0

Not Implemented: 0

SUMMARY OF AUDIT WORK:

The audit work focused on analyzing the financial schedules, examining the underlying financial activity, and reviewing and testing selected control systems over the preparation of the financial schedule notes, transfers in and out, expenditures for personal services and expenditures for benefits to individuals.

For the full report or more information, contact the Legislative Audit Division.

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REPORT ON INTERNAL CONTROL AND COMPLIANCE (page B-1):

In this report, we identified the following:
Material Weaknesses in Internal Control: 0
Significant Deficiencies in Internal Control: 0
Material Non-Compliance: 0
Other Matters: 0

For the full context of this information, including the distinction between the types of items reported, see the report beginning on page B-1.

Chapter I – Introduction and Background

Introduction

We performed a financial-compliance audit of the Judicial Branch (branch) for the two fiscal years (FY) ended June 30, 2020.

The objectives of this audit were to:

1. Determine whether the branch's financial schedules present fairly, in all material respects, the results of operations and changes in fund equity of the Judicial Branch for each of the two fiscal years ending June 30, 2020, and June 30, 2019.
2. Obtain an understanding of the branch's control systems to the extent necessary to support our audit of the financial schedules and, if appropriate, make recommendations for improvements in management and internal controls for the branch.
3. Determine whether the branch complied with selected state laws and regulations.
4. Determine the implementation status of the prior audit recommendation.

During the audit, we focused on personal service expenditures, benefits to individuals, and cash and transfers. We reviewed the overall reasonableness of the financial schedules and notes, while also considering the branch's control systems throughout the audit. Additionally, we tested compliance with 28 state laws including laws related to the clerk of the supreme court; new treatment court support account and the distribution of those funds; and pretrial diversion program.

Coronavirus

The Judicial Branch did not stop operations during the COVID pandemic. Branch administrative employees entered telework agreements to work from home, while court operations were changed to keep court employees and court participants safe. The Law Library switched to appointment only access. The branch received a total of \$307,295 of Coronavirus Relief Funds through the Governor's Office, of which \$180,000 was passed through to the Montana Legal Services Association and \$127,295 was for the branch's use. Montana Legal Services Association spent \$175,373 of its subaward during fiscal year 2021 providing legal services to prevent eviction, for family law issues, including protection for domestic violence survivors, assistance with public benefits, such as unemployment, and assistance with debt management and bankruptcy. The branch's funding was partially expended in FY20 (\$51,300) with an additional \$60,787 expended in FY21. The branch used its Coronavirus Relief Funds

to procure sanitizer, masks for court staff and jurors, health screenings for jury trials, and webcam and speaker units to allow remote hearings and other proceedings.

Background

The Constitution of the state of Montana establishes the Judicial Branch and vests the judicial power of the state in one Supreme Court, district courts, justice courts, and such other courts as may be provided by law. In statute, the legislature has exercised its constitutional powers to further define the judicial function, usually referring to the judicial function as the branch. The Supreme Court, which consists of a Chief Justice and six justices, has appellate jurisdiction and limited original jurisdiction. The Chief Justice appoints the Court Administrator, who serves as the Supreme Court's administrative officer. Additionally, the Supreme Court appoints the Law Librarian who develops and maintains the Law Library collection and administers library services.

The Supreme Court has general supervisory control over all other courts and may make rules governing appellate procedures, practices and procedures for all other courts, admission to the bar, and conduct of practicing attorneys. The rules of appellate procedure are subject to disapproval by the legislature in either of the two legislative sessions following promulgation.

Supreme Court justices and district court judges are elected to office in nonpartisan elections and serve eight-year and six-year terms, respectively. Terms of office and the procedures for filling vacancies in the courts are established in the Constitution and by statute. The legislature establishes the judicial districts and provides for the number of judges in each district. Currently, there are 49 district court judges in 22 judicial districts.

The Clerk of the Supreme Court is elected to a six-year term on a partisan ballot in a statewide election. In accordance with §3-2-402, MCA, the clerk keeps the Supreme Court's records and files, performs functions relating to issuing writs and certificates, approves bonds, files all paper and transcripts, and performs other duties as required by the Supreme Court.

For fiscal management purposes, the branch is divided into five programs. The branch was authorized a full-time equivalent (FTE) staff level of 454.69 for fiscal year 2020. A description of each program follows:

Supreme Court Operations (90.25 FTE) accounts for the costs of operations of the Supreme Court and Office of Court Administrator (office). The office provides

services to the branch including information technology, budget and finance, payroll and human resources management, policy and technical support for the youth courts, judicial education, children's services provided through the federally-funded Court Assessment Program, and drug treatment court expenses supported by the General Fund and fee revenue. The office also provides information technology services to courts of limited jurisdiction, which are not part of branch operations. The pretrial diversion program approved in 2019 is part of this program.

This program includes the administration of juvenile placement funds which are allocated to each judicial district. At the end of each fiscal year, any unobligated and unspent funds from the district are transferred to the Youth Court Intervention and Prevention account per §41-5-130(5), MCA. Once transferred, the funds are part of District Court Operations.

Law Library (6.75 FTE) accounts for the operation of the State Law Library. The branch maintains the library for use by the Supreme Court, the legislature, state officers and employees, members of the bar, and the general public.

District Court Operations (327.69 FTE) accounts for the payment of salaries, travel, training expenses, and operating costs for district court judges, their staff, and youth probation officers. It also includes drug treatment court expenses funded by federal grants and private donations, and certain adult criminal, child abuse, and child neglect care expenses.

Water Courts Supervision (24.50 FTE) accounts for expenditures of the water courts. Montana's water courts were created to adjudicate claims of existing water rights in Montana and supervise the distribution of water within the four water divisions of the state.

Clerk of Court (5.50 FTE) accounts for the costs of operation of the Clerk of Supreme Court. Duties of the clerk include keeping the Supreme Court's records and files, making transcripts for the Supreme Courts, and filing papers or transcripts required by law.

Prior Audit Recommendation

The prior audit report contained one recommendation related to legislation requiring the creation of a Working Interdisciplinary Network of Guardianship Stakeholders. The Branch implemented the program and we consider the recommendation implemented.

Independent Auditor's Report and Branch Financial Schedules

LEGISLATIVE AUDIT DIVISION

A-1

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Schedule of Changes in Fund Equity, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfer Out for the fiscal year ended June 30, 2020, and the Schedule of Changes in Fund Equity & Property Held in Trust, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2019, for the Judicial Branch, and the related notes to the financial schedules.

Management's Responsibility for the Financial Schedules

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Judicial Branch's preparation and fair presentation of the financial schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Judicial Branch's internal control, and accordingly, we express no such opinion. An

audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial schedules are prepared from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets, deferred outflows of resources, liabilities, deferred inflows of resources, and cash flows.

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinions on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Judicial Branch as of June 30, 2020, and June 30, 2019, or changes in financial position or cash flows for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedule of Changes in Fund Equity, Schedule of Total Revenues & Transfers-In, and Schedule of Expenditures & Transfers-Out for the fiscal year ended June 30, 2020, and the Schedule of Changes in Fund Equity & Property Held in Trust, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2019, present fairly, in all material respects, the results of operations and changes in fund equity and property held in trust of the Judicial Branch in conformity with the basis of accounting described in Note 1.

Emphasis of Matters

As discussed in Note 3 to the financial schedules, in fiscal year 2020, the state adopted *Governmental Accounting Standards Board Statement No. 84 – Fiduciary Activities*. Implementation of the standard necessitated elimination of the presentation of property held in trust, and its additions and reductions, on the Schedule of Changes in Fund Equity. Our opinion is not modified with respect to this matter.

As discussed in Note 1 – Basis of Presentation, the financial schedule format was adopted by the Legislative Audit Committee. On June 16, 2020, the Committee approved a change in format to remove the presentation of revenue estimates from the Schedule of Total Revenues & Transfers-In. Our opinion is not modified in respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2021, on our consideration of the Judicial Branch's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Judicial Branch's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

March 4, 2021

JUDICIARY
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL ENDED JUNE 30, 2020

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Custodial Fund
FUND EQUITY: July 1, 2019	\$ (3,330,468)	\$ 12,383,847	\$ 0	\$ 337,950	\$ 42,218	\$ 0
ADDITIONS						
Budgeted Revenues & Transfers-In	212,300	5,682,768	2,258,947		247,465	
Nonbudgeted Revenues & Transfers-In	26,993	22,051				211,177
Prior Year Revenues & Transfers-In Adjustments	244	(12,941)	(7,957)			
Direct Entries to Fund Equity	48,020,283	1,518,140				7,574
Total Additions	<u>48,255,821</u>	<u>7,210,018</u>	<u>2,250,990</u>	<u>0</u>	<u>247,465</u>	<u>218,751</u>
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	48,386,900	6,974,983	2,249,614	129,738	247,939	
Nonbudgeted Expenditures & Transfers-Out	24,025	16,535				216,391
Prior Year Expenditures & Transfers-Out Adjustments	20,245	3,554	1,376			
Total Reductions	<u>48,431,170</u>	<u>6,995,062</u>	<u>2,250,990</u>	<u>129,738</u>	<u>247,939</u>	<u>216,391</u>
FUND EQUITY: June 30, 2020	\$ (3,501,817)	\$ <u>12,598,803</u>	\$ 0	\$ <u>208,212</u>	\$ <u>41,744</u>	\$ <u>2,360</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

JUDICIARY
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Agency Fund
FUND EQUITY: July 1, 2018	\$ <u>(2,615,540)</u>	\$ <u>8,002,163</u>	\$ <u>0</u>	\$ <u>592,034</u>	\$ <u>32,332</u>	\$ <u>0</u>
PROPERTY HELD IN TRUST: July 1, 2018						\$ <u>7,216</u>
 ADDITIONS						
Budgeted Revenues & Transfers-In	200,369	8,952,315		1,990,982		231,187
Nonbudgeted Revenues & Transfers-In	387	57,842				
Prior Year Revenues & Transfers-In Adjustments	154	2,218				
Direct Entries to Fund Equity	44,928,100	1,360,400				
Additions to Property Held in Trust						267,370
Total Additions	<u>45,129,011</u>	<u>10,372,774</u>		<u>1,991,273</u>		<u>267,370</u>
 REDUCTIONS						
Budgeted Expenditures & Transfers-Out	45,907,270	5,967,204		1,999,918		254,084
Nonbudgeted Expenditures & Transfers-Out	(62,663)	23,886				
Prior Year Expenditures & Transfers-Out Adjustments	(669)			(8,645)		
Reductions in Property Held in Trust						267,012
Total Reductions	<u>45,843,939</u>	<u>5,991,090</u>		<u>1,991,273</u>		<u>221,301</u>
 FUND EQUITY: June 30, 2019	\$ <u>(3,330,468)</u>	\$ <u>12,383,847</u>	\$ <u>0</u>	\$ <u>337,950</u>	\$ <u>42,218</u>	\$ <u>0</u>
PROPERTY HELD IN TRUST: June 30, 2019						\$ <u>7,574</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

JUDICIARY
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

TOTAL REVENUES & TRANSFERS-IN BY CLASS					
		General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Custodial Fund
Licenses and Permits		\$ 125,025			\$ 125,025
Taxes		144		2,358	
Charges for Services		29,237	\$ 1,200,128	\$ 247,465	
Monetary Settlements		2,402			
Grants, Contracts, and Donations		113	101,855		
Transfers-in			4,389,895	334,511	
Inception of Lease/Installment Contract		24,025			
Federal Indirect Cost Recoveries		55,735			
Miscellaneous		2,856			
Federal				1,914,121	
Total Revenues & Transfers-In		239,537	5,691,878	2,250,990	211,177
Less: Nonbudgeted Revenues & Transfers-In		26,993	22,051		211,177
Prior Year Revenues & Transfers-In Adjustments		244	(12,941)	(7,957)	
Actual Budgeted Revenues & Transfers-In		\$ 212,300	\$ 5,682,768	\$ 2,258,947	\$ 247,465
					\$ 0
					Total \$ 125,025

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

JUDICIARY
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

TOTAL REVENUES & TRANSFERS-IN BY CLASS		General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Total
Licenses and Permits		\$ 127,963				\$ 127,963
Taxes	169	\$ 31,437	\$ 1,299,281	\$ 291	\$ 231,187	461
Charges for Services	4,771					1,561,905
Monetary Settlements	387		132,047			4,771
Grants, Contracts, and Donations			7,575,809	482,973		132,434
Transfers-in						8,058,781
Federal Indirect Cost Recoveries	36,183		5,238			36,183
Miscellaneous						5,238
Federal				1,508,009		1,508,009
Total Revenues & Transfers-in		200,910	9,012,375	1,991,273	231,187	11,435,744
Less: Nonbudgeted Revenues & Transfers-In	387		57,842			58,229
Prior Year Revenues & Transfers-in Adjustments	154		2,218	291		2,664
Actual Budgeted Revenues & Transfers-in		\$ 200,369	\$ 8,952,315	\$ 1,990,982	\$ 231,187	\$ 11,374,852

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

JUDICIARY
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT						
General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Custodial Fund	Total
Personal Services						
Salaries	\$ 19,496,038					\$ 19,496,038
Employee Benefits	\$ 8,542,225					\$ 8,542,225
Total	<u><u>\$ 28,038,263</u></u>					<u><u>\$ 28,038,263</u></u>
Operating Expenses						
Other Services	\$ 1,679,263					\$ 1,679,263
Supplies & Materials	\$ 350,142					\$ 350,142
Communications	\$ 255,007					\$ 255,007
Travel	\$ 214,855					\$ 214,855
Rent	\$ 99,559					\$ 99,559
Repair & Maintenance	\$ 42,527					\$ 42,527
Other Expenses	\$ 376,319					\$ 376,319
Total	<u><u>\$ 50,829</u></u>					<u><u>\$ 50,829</u></u>
Equipment & Intangible Assets						
Equipment						
Total						
Grants						
From Federal Sources						
Total						
Benefits & Claims						
To Individuals						
Total						
Transfers-out						
Fund transfers						
Total						
Debt Service						
Capital Leases						
Total						
Total Expenditures & Transfers-Out						
EXPENDITURES & TRANSFERS-OUT BY FUND						
General Fund						
State Special Revenue Fund						
Federal Special Revenue Fund						
Capital Projects Fund						
Enterprise Fund						
Custodial Fund						
Total Expenditures & Transfers-Out						
Less: Nonbudgeted Expenditures & Transfers-Out						
Prior Year Expenditures & Transfers-Out Adjustments						
Actual Budgeted Expenditures & Transfers-Out						
Budget Authority						
Unspent Budget Authority						
UNSPENT BUDGET AUTHORITY BY FUND						
General Fund	\$ 7,268					\$ 7,268
State Special Revenue Fund	\$ 1,041					\$ 1,041
Federal Special Revenue Fund						
Capital Projects Fund						
Enterprise Fund						
Unspent Budget Authority						

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

JUDICIARY
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT		Clerk of Court		District Court Operations		Law Library		Supreme Court Operations		Water Court		Total	
Personal Services		\$ 351,995	\$ 18,445,481	\$ 265,949	\$ 4,875,386	\$ 1,246,341	\$ 25,185,132						
Salaries		142,487	6,560,079	124,868	1,827,655	455,752	9,110,840						
Employee Benefits								6,703,021		1,702,092			34,295,972
Total		<u>494,482</u>	<u>25,005,560</u>	<u>390,817</u>	<u>6,703,021</u>								
Operating Expenses													
Other Services		9,520	1,936,806	139	1,533,626	1,521	3,481,613						
Supplies & Materials		4,015	351,120	148,022	1,089,900	12,891	1,605,947						
Communications		7,433	253,810	4,463	1,178,835	33,818	1,478,359						
Travel		429	136,308	1,340	293,658	9,272	441,007						
Rent		11,139	65,642	3,011	725,766	214,261	1,019,819						
Repair & Maintenance		1,554	46,575	850	817,563	3,792	868,781						
Other Expenses			74,656	395,423	28,567	19,512	519,681						
Total		<u>34,089</u>	<u>2,864,917</u>	<u>553,247</u>	<u>5,667,856</u>	<u>295,097</u>	<u>9,415,206</u>						
Equipment & Intangible Assets													
Equipment			97,267	104,919	82,975	38,199	323,360						
Intangible Assets													
Total			<u>97,267</u>	<u>104,919</u>	<u>304,189</u>	<u>38,199</u>	<u>544,574</u>						
Grants													
From Federal Sources			29,560		553,501		583,061						
Total			<u>29,560</u>		<u>553,501</u>		<u>583,061</u>						
Benefits & Claims													
To Individuals			4,397,177		1,036,888		5,434,065						
Total			<u>4,397,177</u>		<u>1,036,888</u>		<u>5,434,065</u>						
Transfers-out													
Fund transfers			6,000		4,022,809		4,028,809						
Total			<u>6,000</u>		<u>4,022,809</u>		<u>4,028,809</u>						
Total Expenditures & Transfers-Out		\$ 528,572	\$ 32,400,481	\$ 1,048,983	\$ 18,288,263	\$ 2,035,389	\$ 54,301,687						
EXPENDITURES & TRANSFERS-OUT BY FUND													
General Fund		\$ 528,572	\$ 26,644,489	\$ 827,682	\$ 17,178,342	\$ 664,854	\$ 45,843,939						
State Special Revenue Fund			4,316,955		303,600	1,370,534	5,991,090						
Federal Special Revenue Fund			1,439,036		552,237		1,991,273						
Capital Projects Fund					254,084		254,084						
Enterprise Fund													
Total Expenditures & Transfers-Out		<u>528,572</u>	<u>32,400,481</u>	<u>221,301</u>	<u>18,288,263</u>	<u>2,035,389</u>	<u>54,301,687</u>						
Less: Nonbudgeted Expenditures & Transfers-Out			(972)	1,048,983 (820)	(13,791) (9,314)	(3,486)	(38,777) (9,314)						
Prior Year Expenditures & Transfers-Out Adjustments													
Actual Budgeted Expenditures & Transfers-Out		<u>529,544</u>	<u>32,420,176</u>	<u>1,049,803</u>	<u>18,311,368</u>	<u>2,038,887</u>	<u>54,349,778</u>						
Budget Authority			561,469	41,168,402	1,294,805	21,005,550	2,355,831	66,389,057					
Unspent Budget Authority			<u>34,925</u>	<u>8,748,226</u>	<u>245,002</u>	<u>2,694,182</u>	<u>316,944</u>	<u>\$ 12,039,279</u>					
UNSPENT BUDGET AUTHORITY BY FUND													
General Fund		\$ 34,925	\$ 1,548,346	\$ 244,533	\$ 1,205,035	\$ 312,336	\$ 3,345,175						
State Special Revenue Fund			3,969,958		141,841	4,608	4,116,407						
Federal Special Revenue Fund			3,229,921		1,009,357		4,239,278						
Capital Projects Fund					337,950		337,950						
Enterprise Fund													
Unspent Budget Authority													

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Judicial Branch
Notes to the Financial Schedules
For the Two Fiscal Years Ended June 30, 2020

1. Summary of Significant Accounting Policies

Basis of Accounting

The branch uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, Capital Projects). In applying the modified accrual basis, the branch records:

- ◆ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ◆ Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the branch to record the cost of employees' annual and sick leave when used or paid.

The branch uses accrual basis accounting for its Proprietary (Enterprise) and Fiduciary (Agency and Custodial) fund categories. Under the accrual basis, as defined by state accounting policy, the branch records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the branch receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

In June 2020, the Legislative Audit Committee approved two changes to the financial schedule format.

Schedule of Changes in Fund Equity:

The Legislative Audit Committee voted to exclude property held in trust activity from the Schedule of Changes in Fund Equity beginning in fiscal year 2020. This change

was necessary to facilitate implementation of GASB Statement 84, Fiduciary Activities, at the agency financial schedule level.

Schedule of Total Revenues and Transfers-in:

The Legislative Audit Committee voted to exclude revenue estimate activity from the Schedule of Total Revenues and Transfers-In effective for the 2020 audit cycle.

As a result of the two changes:

Beginning with the fiscal year 2020 financial schedules, the Judicial Branch Agency fund has been replaced with the Custodial fund on the Schedule of Changes in Fund Equity. In fiscal year 2020 property held in trust line items are no longer be reported and additions and reductions in property held in trust are replaced with revenues and expenditures. Additionally, the schedule title will no longer include property held in trust in its name.

Beginning with the fiscal year 2019 and fiscal year 2020 financial schedules opined on in the 2020 cycle, the Schedule of Total Revenues and Transfers-In will no longer report revenue estimate information.

The branch uses the following funds:

Governmental Fund Category

- ◆ **General Fund** – to account for all financial resources except those required to be accounted for in another fund. General Fund includes funds appropriated for ongoing personal services and general operations of the Judicial Branch, including Supreme Court Operations, the Law Library, District Court Operations, Water Court and the Clerk of Court.
- ◆ **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. Branch State Special Revenue Funds include Youth Court and Drug Court fees, Juvenile Delinquency Intervention Program Transfer, Parental Contributions related to juvenile placements, Judicial Education, Legal Assistance, Court Appointed Special Advocate and Guardian ad Litem, Judiciary private funds, Water Court, the Pretrial Diversion Program, and Treatment Court Support.
- ◆ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Branch Federal Special Revenue Funds include grants for drug courts and various branch grants including projects related to Information Technology and the Court Improvement Program.
- ◆ **Capital Projects Fund** – to account for financial resources used for the acquisition or construction of major capital facilities, other than those

financed by proprietary funds or trust funds. The branch uses this fund for Long Range Information Technology Projects.

Proprietary Fund Category

- ◆ **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. Branch Enterprise Funds include Lexis Proprietary Account.

Fiduciary Fund Category

- ◆ **Agency Fund** – to account for resources held by the state in a custodial capacity. Agency funds may be used on a limited basis for internal (to the State) clearing account activity but these must have a zero balance at fiscal year-end. The branch agency funds include District Court Youth Probation Restitution.
- ◆ **Custodial Fund** – to account for fiduciary activities that are not required to be reported in pension and other employee benefit trust funds, investment trust funds, or private-purpose trust funds. This fund type is to report fiduciary activities that are not held in a trust or equivalent arrangement. Custodial funds may be used on a limited basis for internal (to the State) clearing account activity, but these must have a zero balance at fiscal year-end. The branch custodial funds include District Court Youth Probation Restitution.

2. General Fund Equity Balance

The negative fund equity balance in the General Fund does not indicate overspent appropriation authority. The branch has authority to pay obligations from the statewide General Fund within its appropriation limits. The branch expends cash or other assets from the statewide fund when it pays General Fund obligations. The branch's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund equity balances for each of the fiscal years ended June 30, 2019 and June 30, 2020.

3. Direct Entries to Fund Equity

Direct entries to fund equity in the General and State Special funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

The direct entry to fund equity in the Custodial Fund is a one-time conversion entry to establish the beginning net position in custodial funds, which is a change in accounting principle related to the implementation of GASB 84.

4. Supreme Court Operations

The Supreme Court Operations Program includes funding for supreme court justices and their staff, the Office of the Court Administrator, Information Technology, Drug Courts, the Pretrial Diversion Program and the Juvenile Delinquency Intervention Program (JDIP). Total HB 2 approved FTE in this program are approximately 90.

In the Supreme Court Operations Program, employee benefits expended in fiscal year 2020 are approximately 20% more than in fiscal year 2019. This difference is materially attributable to SB 1, legislation passed during the 2017 Special Legislative Session that suspended employer contributions to the Judges' Retirement System for the entire fiscal year 2019. The legislation terminated June 30, 2019 and employer contributions resumed for the entire fiscal year 2020. Retirement contributions for supreme court justices in fiscal year 2020 were \$227,873, which makes up approximately 62% of the difference between fiscal years.

Also included in the Supreme Court Operations program is the Pretrial Diversion Program, which was funded as a one-time-only program in the general fund. The 2019 Legislature passed HB 684 which switched the funding from general fund to state special revenue effective for fiscal year 2020. In fiscal year 2019 pretrial expenditures reported in the general fund were approximately \$775,000, and in fiscal year 2020, pretrial expenditures in the state special revenue fund were approximately \$661,000.

5. District Court Operations

The District Court Operations Program includes funding for district court judges, their staff and youth probation officers. Total HB 2 approved FTE in this program are approximately 328.

Employee benefits increased by approximately 30% from fiscal year 2019 to fiscal year 2020. This difference is materially attributable to SB 1, legislation passed during the 2017 Special Legislative Session that suspended employer contributions to the Judges' Retirement System for the entire fiscal year 2019. The legislation terminated June 30, 2019 and employer contributions resumed for the entire fiscal year 2020. Retirement contributions for district court judges in fiscal year 2020 were approximately \$1.7 million, which makes up approximately 86% of the difference between fiscal years.

Unspent Budget Authority: The majority of unspent budget authority in the District Court Operations Program in fiscal year 2019 consists of approximately \$3.2 million related to federal grants and approximately \$3.8 million is related to the prevention and intervention account. In fiscal year 2020, the majority of the unspent authority consists of approximately \$5.1 million related to federal grants and approximately \$4 million related to the prevention and intervention account.

6. Transfers

Revenue from transfers-in in the state special revenue fund includes the transfer of unexpended JDIP funds as required by statute. Transfers-in reported in fiscal year 2019 are approximately \$3.2 million, or 73%, higher than transfers-in reported in fiscal year 2020. This difference is attributable to transfers established in HB 684 which was passed by the 2019 Legislature. The bill required a one-time transfer of \$1.6 million into the Pretrial Diversion Program, which switched the funding for that program from general fund in fiscal year 2019 to state special in fiscal year 2020. HB 684 also established a one-time transfer of \$2 million into the Treatment Court Support Account. The appropriation related to the treatment court support transfer was established in HB 654 for the amount of \$250,000 beginning in fiscal year 2021, thus no expenditures were incurred during the audit period.

The Supreme Court Operations Program includes a general fund appropriation for the Juvenile Delinquency Intervention Program (JDIP) which provides funding for juvenile out-of-home placements, programs, and services. Statute directs the branch to deposit unexpended funds into the statutorily appropriated youth court intervention and prevention account at the end of each fiscal year. Fund transfers include approximately \$4 million in fiscal year 2019 and \$4.4 million in fiscal year 2020.

7. Grants from Federal Sources

In fiscal year 2019 and fiscal year 2020 grants from federal sources in the amounts of \$553,501 and \$470,115, respectively, were recorded in the Supreme Court Operations Program. The expenditures are for grants to local governments related to the Pretrial Diversion Program, which was funded with general fund in fiscal year 2019 and state special revenue in fiscal year 2020. The expenditures should have been reported as grants from state sources.

8. Related Party Transactions

During the period covered by the audit the Judicial Branch had a contract with a vendor who was related to a branch employee. The contract covered life coaching services provided to the 13th Adult Treatment court, where the vendor is a direct relative of the

drug court coordinator. The branch has taken steps to ensure an independent review and approval of the invoices submitted. Total payments to the related party were \$1,450 in fiscal year 2019. There were no payments in fiscal year 2020.

9. Financial Schedules Rounding

The financial schedules for the two fiscal years ended June 30, 2020, do not foot or cross-foot due to rounding. However, the rounding issue is immaterial and the Judicial Branch considers the schedules an accurate representation of the financial activity reported in SABHRS by the branch.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

B-1

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL SCHEDULES PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedule of Changes in Fund Equity, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2020, and the Schedule of Changes in Fund Equity & Property Held in Trust, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2019, of the Judicial Branch, and the related notes to the financial schedules, and have issued our report thereon dated March 4, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the Judicial Branch's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the Judicial Branch's internal control. Accordingly, we do not express an opinion on the effectiveness of the Judicial Branch's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material

weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Judicial Branch's financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Judicial Branch's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Judicial Branch's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

March 4, 2021

JUDICIAL BRANCH

BRANCH RESPONSE

THE SUPREME COURT OF MONTANA

MIKE McGRATH
CHIEF JUSTICE



JUSTICE BUILDING
215 NORTH SANDERS
PO BOX 203001
HELENA, MONTANA 59620-3001
TELEPHONE (406) 444-5490
FAX (406) 444-3274

April 13, 2021

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APR 13 2021

LEGISLATIVE AUDIT DIV.

Angus Maciver, Legislative Auditor
Legislative Audit Division
Room 135, State Capitol
Helena, MT 59620

Re: Judicial Branch Financial-Compliance Audit for FY 2019 and FY 2020

Dear Mr. Maciver:

We have reviewed the April 2021 Financial-Compliance Audit of the Judicial Branch for the two fiscal years ending June 30, 2020, and have no comments or exceptions to the report.

We would like to thank your staff for conducting this audit in such a cooperative, professional manner. We consider the audit process as a valuable opportunity to evaluate and improve our operations and performance. The Judicial Branch is committed to complying with state and federal laws, maintaining effective internal controls, and ensuring complete and accurate financial information is recorded in the State's accounting system.

Sincerely,

A handwritten signature in blue ink, appearing to read "M. McGrath".

Mike McGrath
Chief Justice

A handwritten signature in blue ink, appearing to read "Beth McLaughlin".

Beth McLaughlin
Court Administrator